*THE* ***GASB*** *REPORT*

***No. 344 / November 2013***

*(The GASB Report No. 306)*

***GASB Calendar***

The GASB has scheduled the following public meeting dates:

***January 21–22***

***March 3–5***

The GASB also is scheduled to meet via **teleconference** on **December 20** and **February 10.** The precise time, as well as the agenda, will be announced approximately two weeks before each meeting. With the exception of the March 5 meeting, which will be held in Washington, D.C., all meetings are held at the Financial Accounting Foundation (FAF) offices in Norwalk, Connecticut.

In addition, the GASB will convene a meeting of the Leases Task Force on January 23 beginning at 8:30 a.m. at the Sheraton LaGuardia East Hotel, Flushing, New York.

Also, the FAF Board of Trustees will meet on February 25 in Norwalk.

Finally, the GASB will be meeting with the Governmental Accounting Standards Advisory Council on March 11 and 12 in Reno, Nevada, in conjunction with the 2014 annual conference of the National Association of State Comptrollers.

Please check the GASB website at www.gasb.org three working days prior to meetings to verify the final agenda.

If you plan to attend *any* meetings, please notify Ragan Vincent at (203) 956-5372 or via email at rpvincent@gasb.org. In addition, due to the FAF’s security procedures, visitors to *all* meetings are required to go to www.gasb.org to register at least 24 hours before each meeting they are planning to attend.

GASB public meetings held in Norwalk are available by video webcast; teleconference meetings are available by audio-only webcast. To access the webcasts, visit the Meetings section of the GASB website, www.gasb.org, and click on the picture of the Board room on the Live Meeting Webcasts page.

***Martin J. Benison Re-appointed as GASAC Chairman; New Member Organization, Members Announced***

The Board of Trustees of the Financial Accounting Foundation (FAF) has re-appointed Martin J. Benison to a two-year term as Governmental Accounting Standards Advisory Council (GASAC) chairman, a position he has held since 2011.

Mr. Benison is the comptroller of the Commonwealth of Massachusetts.

He serves as the representative of the National Association of State Auditors, Comptrollers, and Treasurers on the council.

In addition, the FAF announced that the Association of Financial Guaranty Insurers (AFGI) has been added to the GASAC as a member organization.

Also, the FAF approved the appointment of six new members of the GASAC, who will begin two-year terms on January 1, 2014. The new members are:

• Sandra Moorman, controller, Sacramento Municipal Utility District, representing the American Public Power Association (APPA)

• Daniel Smith, assistant professor of public budgeting and financial management, Robert Wagner School, New York University, representing the Association for Budgeting and Financial Management (ABFM)

• Barbara Flickinger, managing director, portfolio surveillance, National Public Finance Guaranty Corporation, representing AFGI

• Lealan Miller, director, government services, Eide Bailly, representing the Association of Government Accountants (AGA)

• Robert Schultze, director, Virginia Retirement System, representing the National Association of State Retirement Administrators (NASRA)

• Stephen Klein, director, Vermont Joint Fiscal Office, representing the National Conference of State Legislatures (NCSL).

“We are very pleased to welcome Sandra, Daniel, Barbara, Lealan, Robert, and Stephen to the GASAC,” said Chairman Benison. “Having the benefit of their broad and diverse experience in public sector financial reporting will be of great value in providing the GASB with the feedback needed to achieve its goal of continually improving financial accounting and reporting standards used by state and local governments.”

David A. Vaudt, chairman of the GASB, stated, “The role the GASAC plays in advising the GASB as it works toward developing guidance for state and local governments is essential to the effective functioning of our process and allows us to reach well-informed decisions. The GASB owes a debt of gratitude to Marty for his dedicated efforts as chairman. We look forward to the contributions of the incoming GASAC members under his leadership,” he said.

In addition to the new member appointments, the FAF also has approved the reappointment of the following GASAC members for two-year terms covering 2014 and 2015:

• Jacqueline Reck, professor of accounting, School of Accountancy, University of South Florida, representing the American Accounting Association

• Joseph Stefko, president/chief executive officer, Center for Governmental Research, representing the Governmental Research Association

• Gerald Lian, senior analyst, Invesco Fixed Income, representing the Investment Company Institute

• Glen Whitley, judge, Tarrant County, Texas, representing the National Association of Counties

• Charles Tegan, comptroller, Clemson University, representing the National Association of College and University Business Officers

• Dominic Colafati, chief budget examiner, Expenditure/Debt Unit, State of New York, Division of the Budget, representing the National Association of State Budget Officers

• Jim Reardon, commissioner of finance and management, State of Vermont, representing the National Governors Association.

The FAF and GASB wish to recognize the following GASAC members who conclude their terms on December 31, 2013:

• Eric Berman, partner, Eide Bailly, LLP, representing the AGA

• Vance Holloman, deputy treasurer, North Carolina Department of State Treasurer, member-at-large

• Pat Robertson, executive director, Public Employee’s Retirement System of Mississippi, representing NASRA

• Odd Stalebrink, associate professor of administration, School of Public Affairs, Pennsylvania State University, representing ABFM

• Gary VanLandingham, director, Results First, Pew Charitable Center on the States, representing NCSL

• Mindy Willis, director, accounting services, Orlando Utilities Commission, representing APPA.

***Board Meeting Summary***

The GASB held a public meeting October 29–31 to discuss its projects addressing the GAAP Hierarchy, Pension Transition, OPEB, Leases, Fiduciary Responsibilities, Measurement under the Conceptual Framework, and Fair Value Measurement and Application. In addition, the GASB held a teleconference meeting on November 18. Due to publication deadlines, details of the November teleconference are not discussed in this issue of *The GASB Report* but will be presented in the next issue.

***GAAP Hierarchy***

The Board considered issues related to the effective date and transition provisions for the proposed Exposure Draft, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments,* and the effective date and transition provisions for the proposed *Implementation Guide.* The Board tentatively agreed the proposed Statement and the proposed Implementation Guide would be effective for periods beginning after June 15, 2015, and that the transition provisions would permit early application.

The Board continued its discussion by reviewing a preliminary draft of the standards section of the proposed Statement. The Board will review a preballot draft of the proposed Statement for consideration at the December meeting.

In addition, the Board discussed the staff analysis of the remaining portion of the questions-and-answers (Q&As) in Chapter 8 of the *Comprehensive Implementation Guide* on an individual Q&A basis. Chapter 8 addresses employer and plan accounting and reporting for postemployment benefits other than pensions. The Board tentatively did not object to proposing the staff recommendations regarding the items reviewed in Chapter 8, subject to clarifications and revisions agreed to at the meeting.

***Pension Transition***

The Board reviewed a preballot draft of a final Statement, *Pension Transition for Contributions Made Subsequent to the Measurement Date,* and provided clarifying changes that will be incorporated into the ballot draft of the final Statement. The Board will review a ballot draft for consideration at the November teleconference.

***Other Postemployment Benefits***

Continuing discussions related to the use of an alternative measurement method for calculating an employer’s OPEB liability for small employers, the Board tentatively agreed to propose that the expected point in time in which benefits will be provided be a single assumed retirement age for all active employees or an assumption that all active employees will retire upon attaining a certain number of years of service, which should reflect past experience and future expectations for the covered group.

The Board tentatively agreed to propose that historical age-based turnover experience of the covered group be used to determine turnover assumptions in the alternative measurement method. The Board also tentatively agreed to propose that, if such experience data is not available to determine turnover assumptions, the alternative measurement method utilize default calculations to determine turnover assumptions.

The Board tentatively agreed to propose that the expected future working lifetime of plan members be the difference between the employee’s current age and the employee’s assumed retirement age for purposes of allocating the present value of expected benefits to periods. In addition, the Board tentatively agreed to propose that the alternative measurement method utilize default factors for calculating age-adjusted premiums when active employees and retirees are charged the same premiums and the employer is unable to obtain age-adjusted premium information for retirees from the insurer.

The Board also discussed issues related to accounting and financial reporting of plans that administer defined benefit OPEB in trusts. The Board tentatively agreed to propose the same provisions for recognition and measurement in financial statements, note disclosures, and required supplementary information as defined benefit pension plans in Statement No. 67, *Financial Reporting for Pension Plans,* with the following additional note disclosures:

• Sharing of costs between the employer and benefit recipients based on terms or policies or sharing of costs based on an historical pattern

• Measures of the OPEB plan’s net OPEB liability resulting from a 1-percentage-point increase and a 1-percentage-point decrease in the discount rate.

The Board also considered issues related to accounting and financial reporting for OPEB arrangements that are not administered as trusts. The Board tentatively agreed to propose that funds used to accumulate assets and pay OPEB for multiple employers be reported as agency funds with assets and liabilities recognized in the same manner as assets and liabilities held by defined benefit OPEB plans administered as trusts. The Board also tentatively decided to propose that assets held in excess of liabilities in these circumstances be offset by liabilities to participating employers.

The Board tentatively agreed to propose that the notes to the financial statements for multiple-employer OPEB arrangements that do not meet the criteria to be reported as a trust include the following:

• Disclosure of the number of participating employers and nonemployer contributing entities

• A description of how the fair value of investments is determined

• Authority under which obligations of the plan members, employers, and other contributing entities to contribute are established or amended

• Description of how the contributions of plan members, employers, and nonemployer contributing entities are determined and how the costs of administering the plan are financed

• Required contribution rate(s) of active or retired plan members, as applicable, expressed as a rate (amount) per member or as a percentage of covered payroll

• Description of any long-term contracts for contributions to the plan and disclosure of the amounts outstanding at the reporting date.

The Board also discussed issues related to accounting and financial reporting of pension arrangements that are not administered as trusts. The Board tentatively agreed to propose that the tentative decisions in relation to accounting and financial reporting for OPEB arrangements not administered as trusts be applied to pension arrangements not administered as trusts.

***Leases***

The Board discussed lessee recognition and measurement, including the foundation for recognition and measurement, and lessee recognition of assets and liabilities. The Board also began discussions on the initial measurement of lessee liabilities.

The Board tentatively agreed to propose that the right to use the underlying asset be recognized as an asset by the lessee and that the obligation to make lease payments be recognized as a liability by the lessee. The Board further tentatively agreed to propose that the obligation to return the underlying asset at the end of the lease not be recognized as a liability by the lessee; it also should not be recognized as a deferred inflow of resources or an outflow of resources.

In discussing potential exceptions to the overall lease model, the Board tentatively agreed to propose that exceptions be made for short-term leases, under which the lessee government is not required to recognize assets or liabilities. The Board also tentatively agreed to propose that a short-term lease be defined as a lease that, at the beginning of the lease, has a maximum possible term under the contract, including any options to extend, of 12 months or less. In addition, the Board tentatively agreed to propose that the presence of a purchase option not affect the definition of a short-term lease. However, the Board also tentatively decided to propose that leases that transfer ownership not qualify for the short-term lease exception, even if those leases meet the other criteria.

Next, the Board discussed the overall approach to the measurement of lease assets and liabilities for lessees. The Board tentatively decided to propose that the general approach to measuring lease assets and liabilities be to measure the liabilities first and base the assets on that amount. The Board also tentatively decided to propose that the general measurement approach for a lease liability be based on the present value of future payments.

The Board also discussed the lessee measurement of lease liabilities and the types of payments that should be included and tentatively decided to propose that the following types of lease payments be included in the measurement of the initial lease liability:

• Fixed payments for the lease term

• Variable payments based on an index or rate, using the rate in effect at that date

• Variable payments that are in-substance fixed.

***Fiduciary Responsibilities***

The Board continued its deliberation on the fiduciary responsibilities with a discussion of whether a government would be considered to be controlling assets in a fiduciary capacity if they had assigned or delegated the responsibility for holding the assets to another entity, such as a trust or a third-party administrator. In these instances, the government would be indirectly controlling the assets. The Board tentatively agreed to propose that a government is controlling fiduciary assets when it has assigned or delegated the responsibility for holding the assets to another entity, if it has legally or contractually been authorized to do so.

The Board then discussed a proposed definition of a fiduciary based on the Board’s major tentative decisions proposed, the Board member recommendations made to improve the definition at the September 2013 meeting, and the project staff’s analysis of these recommendations. The Board tentatively decided to propose that a fiduciary be defined as “a government that controls assets other than those that can be used to support the government’s own programs.”

Finally, the Board tentatively concluded that the definition of an asset included in Concepts Statement No. 4, *Elements of Financial Statements,* encompasses fiduciary activities for financial reporting purposes.

***Conceptual Framework—Measurement***

The Board reviewed a paper that summarized comments received on the Exposure Draft, *Measurement of Elements of Financial Statements,* and tentatively approved the proposed schedule for evaluating the feedback received and issuing a final Concepts Statement, which is scheduled for the first quarter of 2014.

***Fair Value Measurement and Application***

The Board reviewed a paper that summarized comments received on the Preliminary Views, *Fair Value Measurement and Application,* and tentatively agreed to proceed with the project plan as presented in the technical plan for the final third of 2013.

***GASAC Meeting—October 2013***

A meeting of the Governmental Accounting Standards Advisory Council (GASAC) was held on October 28 and 29, 2013 in Boston. The GASAC’s agenda included providing feedback on projects on the GASB’s current technical agenda and an update of the activities of the GASB’s parent organization, the Financial Accounting Foundation (FAF), including the FAF’s oversight activities associated with the GASB. Jeffrey Diermeier, chairman of the FAF Board of Trustees, and Terri Polley, president and chief executive officer of the FAF, presented the report of the FAF.

Mr. Diermeier provided an overview of the objectives and activities of the FAF. He concluded by thanking GASAC members for their service and continued support. Ms. Polley reviewed the revised proposal on the GASB’s scope of authority and provided an update on Post-Implementation Review (PIR) matters. In August, a PIR report on GASB Statements No.10, *Accounting and Financial Reporting for Risk Financing and Related Insurance Issues,* and No. 30, *Risk Financing Omnibus,* was approved and is now available on the FAF website, www.accountingfoundation.org. She noted that a review of GASB Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries,* is now underway and that the FAF anticipates a report of findings to be issued in the first quarter of 2014.

Over the course of the day-and-a-half meeting, GASAC members provided substantive feedback to the GASB on the following projects: Fiduciary Responsibilities, Leases, Measurement Concepts and Fair Value Measurement and Application, Other Postemployment Benefits (OPEB), the Hierarchy of Generally Accepted Accounting Principles (GAAP Hierarchy), and the Financial Reporting Model Reexamination (pre-agenda research). The members of the GASAC addressed tentative decisions made by the GASB in these projects (if applicable) and offered input on open questions that the Board will address in the future.

With respect to the Fiduciary Responsibilities project, GASAC members offered input on major tentative decisions reached since the June 2013 GASAC meeting, including the proposed definition of *fiduciary.* The Board is scheduled to issue an Exposure Draft in the project in the third quarter of 2014.

Regarding the Leases project, GASAC members provided feedback on major tentative decisions reached since the June 2013 GASAC meeting, including with respect to the definition of a lease, the scope of the project, the classification of leases, lease terms, and recognition of assets and liabilities for lessees. The Board is scheduled to issue an Exposure Draft in the project in the final quarter of 2014.

During discussions addressing the OPEB project, GASAC members offered input on major tentative decisions reached since the June 2013 GASAC meeting, including issues associated with reporting by cost-sharing employers, reporting by employers and nonemployer entities in special funding situations, note disclosures, and required supplementary information. The GASB is expected to issue a related due process document in the second quarter of 2014.

With respect to the GAAP hierarchy project, members of the GASAC offered feedback on major tentative decisions made since the GASAC meeting in June 2013, including those regarding preference of analogies to authoritative literature in comparison to the use of nonauthoritative guidance. The Board is scheduled to issue an Exposure Draft on the GAAP hierarchy in the first quarter of 2014.

GASAC members also offered initial input regarding the GASB’s pre-agenda research on the reexamination of the financial reporting model. This research is being conducted to help the Board determine if the current financial reporting model is meeting financial reporting objectives and if opportunities to improve upon it exist. Members of the GASAC provided input on the type of related information they would like to receive on this effort at future meetings. Research activities are scheduled to conclude in the spring of 2015.

The next GASAC meeting is scheduled to be held on March 11 and 12 in Reno, Nevada in conjunction with the annual conference of the National Association of State Comptrollers. Additional information about the projects referenced above is available at www.gasb.org.

***GASB Holds Public Hearing on Fair Value Preliminary Views and Measurement Exposure Draft***

On November 1, the GASB held a combined hearing on the Preliminary Views, *Fair Value Measurement and Application,* and the Exposure Draft, *Measurement of Elements of Financial Statements.* The GASB holds public hearings to allow the Board an opportunity to better understand stakeholder input through question-and-answer sessions with respondents and listening to the rationale behind positions provided in response to questions asked about the Board’s proposals.

During the combined public hearing, the GASB received testimony from a total of 10 individuals and organizations, including financial report users, preparer organizations, and other interested parties. The participants expressed a wide range of opinions, including those that supported the Board’s Preliminary Views on fair value measurement and application and Exposure Draft on measurement as well as those that disagreed in varying degrees with the provisions of those documents.

The Board approved the Preliminary Views and the Exposure Draft for public comment in June and received 37 and 26 written responses, respectively. Redeliberations on both projects are scheduled to begin at the December meeting with consideration of input received during the comment period and through the public hearing.

***The GASB Report***

The GASB welcomes feedback on *The GASB Report.*

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